

Capital and Sales Budgets for 1962

Rising Capital Investment—Record Sales Expected

American business has scheduled expenditures of \$37.2 billion for new plant and equipment in 1962, an increase \$2½ billion or 8 percent above the actual 1961 total. Investment in this amount in 1962 compares with the record of \$37.0 billion in 1957. Industrywide, the 1962 expansion in capital budgets is broadly based, with all major industry groups except nonrail transportation planning higher investment than in 1961. Further, the survey¹ indicates an upward trend in expenditures throughout the year.

Accompanying the enlarged capital programs are expectations of advances in sales and revenues to new records. Manufacturing and public utilities companies estimate 1962 receipts at rates 7 and 8 percent above 1961. The anticipated rise in retail and wholesale trade is about 5 percent.

Profile of 1962 investment programs

Businessmen's investment plans for 1962 suggest an overall expansion which is moderate in view of the substantial upswing in economic activity and in profits since the cyclical low early in 1961.

Communications and commercial firms expect to spend one-tenth more in 1962 than in 1961. Manufacturers have scheduled this year's investment at 9 percent more than in 1961, while less-than-average increases are planned by the electric and gas utilities. The results for major industries are summarized in the accompanying table.

Noteworthy in present plans is the improvement in investment by the durable goods manufacturing industries, where cutbacks were pronounced in

the downswing. Fixed investment by heavy goods producers this year is expected to rise almost one-sixth over 1961. Railroad investment which does not bulk large in total business spending, reports an interruption in the long downtrend in equipment purchasing with some recovery following the sharp drop in 1961.

Quarterly programs

The quarterly tabulations show a pattern of rise from the seasonally adjusted annual rate of \$35½ billion attained in the final quarter of 1961. Spending in the first quarter is scheduled at \$36 billion, and the second quarter is slated for a further small increase to \$36½ billion. The expected increase stems mainly from durable

goods producers and commercial companies.

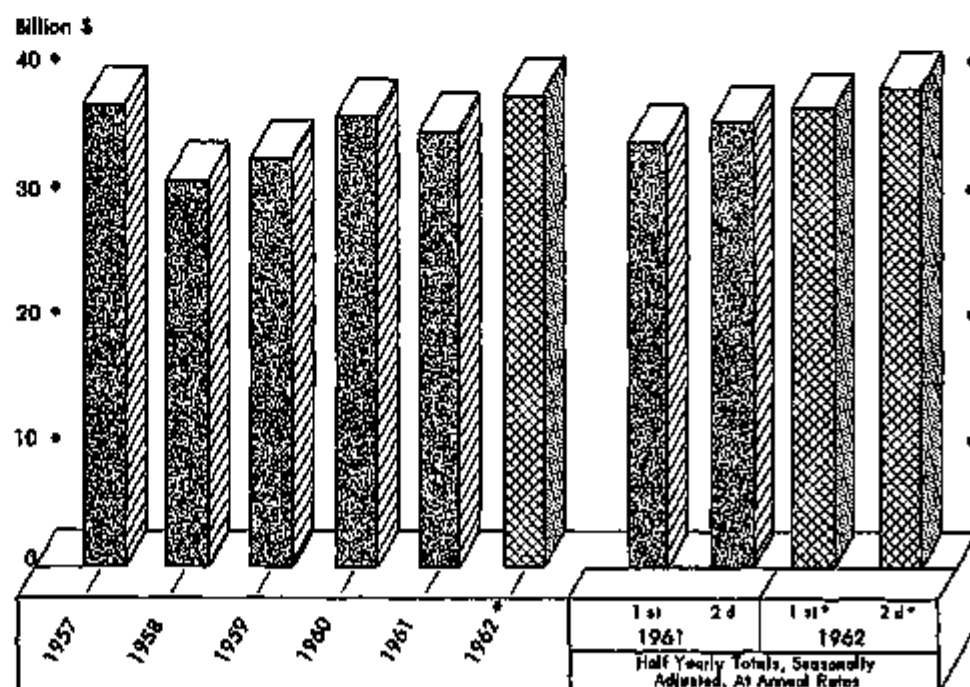
Under current plans, plant and equipment purchases by durable goods producers will be 18 percent higher in the second quarter of this year than in the corresponding quarter of 1961. For all nonagricultural business investment by midyear is expected to be at a rate 9 percent above the second quarter 1961 trough, with both manufacturing and nonmanufacturing as a whole contributing about equally to the advances.

Comparison of the anticipated outlays in the first half year with the respondents' programs for the full year 1962 yields a second half estimate of \$38 billion, or 5 percent higher than the first 6 months' projection. Most

INCREASE IN PLANT AND EQUIPMENT INVESTMENT

• 1962 Programed at \$37 Billion, Up \$2 3/4 Billion From 1961 and Approximating 1957 Record

• Rise Expected to Continue Throughout 1962



1. Data in this article are based upon the regular annual survey of new plant and equipment expenditures conducted jointly by the Office of Business Economics and the Securities and Exchange Commission. Reports of 1962 plans were submitted by cooperating companies during February. The agricultural industry is not covered by these recurring surveys.

of this expected increase is in manufacturing, public utilities and in commercial industries.

Current capital budgets are influenced by numerous favorable short-run factors. Chief among these are rising sales and backlogs of unfilled orders, improving profits, relative ease in financing—both from internal and external sources—and the need for reducing costs and otherwise improving the effectiveness of competitive positions and basic technological advances. These are providing a positive background for investment decisions. In addition, proposals for tax benefits on investment—in the form of both tax credits and more rapid depreciation rates—are now being considered.

On the other hand, a contrary influence is the relatively ample capacity in most areas, despite the fact that capital investment has constituted

a declining proportion of total output for the past four years.

Manufacturers' Investment Programs

With record sales and new orders, manufacturers have laid plans for substantial additions to their productive facilities in 1962. Expenditures this year may total \$15 billion as compared to \$13½ billion in 1961 and \$16 billion in 1957, when the 1955-57 investment boom reached its peak. While planned increases from last year are general among the component industries, the most substantial advances are originating in durable goods. Here, many firms are aggressively attempting to better market positions by the improvement or addition of products, or by lowering costs and increasing efficiency via automated equipment.

Primary impetus to the expected advance in capital spending lies with the larger-sized companies. Plans of medium and smaller firms are consistently more modest but tend to follow the industry pattern. That is, in those industries reporting the largest anticipated rises in capital spending, increases are generally larger among all size groups than in those areas where the overall rise is small.

Large rise for durable goods

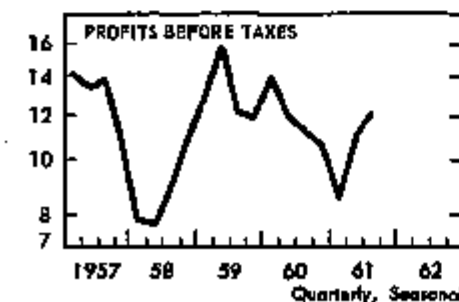
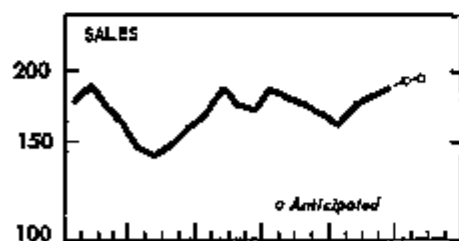
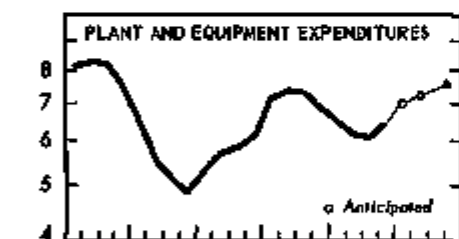
Current plans of durable goods producers provide for a 12 percent rise in

MANUFACTURERS' ENLARGED 1962 CAPITAL BUDGETS

Reflect Recent Profits Improvement and Expectations of Higher Sales

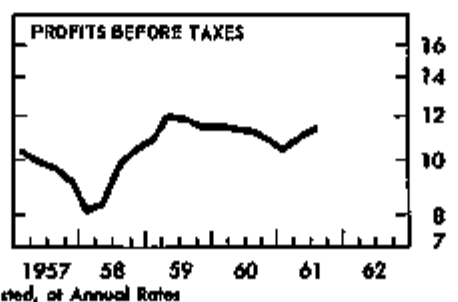
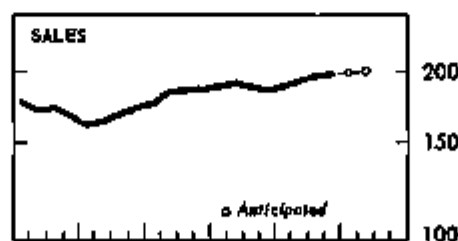
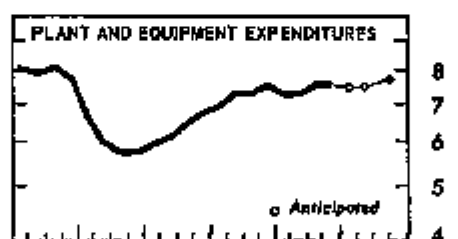
DURABLE GOODS INDUSTRIES

Billion \$ (ratio scale)



NONDURABLE GOODS INDUSTRIES

Billion \$ (ratio scale)



* 2d half anticipation

U.S. Department of Commerce, Office of Business Economics

Date: OBE, SEC, FTC

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Table 1.—Percentage Change in Plant and Equipment Expenditures 1960-61 and Anticipated 1961-62

	1960-61 actual	1961-62 anticipated
Total business.....	-4	8
Manufacturing.....	-6	9
Durable goods.....	-13	10
Nondurable goods.....	1	3
Mining.....	-1	3
Railroads.....	-36	20
Transportation, other than rail.....	-4	0
Public utilities.....	-2	2
Commercial and other.....	1	11

Sources: U.S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

investment during the second quarter of 1962 over actual expenditures in the fourth quarter of 1961. A further rise is expected for the second half. (See chart.) Because of the very sharp contraction in capital expenditures by heavy goods companies in recent business downturns the anticipated rate of \$7 billion in the spring quarter of this year would be 5 percent under the 1960 cyclical high and 15 percent under the 1957 record. If second half plans are realized, however, spending may return to record rates.

Comparison of the quarterly movements since 1957, shown in the chart, indicates the lead time of reversals in sales and profits movements over turns in plant and equipment expenditures. The relatively steep rise in profits and rapidly improving sales in recent quarters are reflected in the expansion of durable goods producers capital budgets for 1962. Historically, movements in capital outlays for the group have been

more volatile than sales, but less so, of course, than those of profits.

Iron and steel producers' plans call for a 30-percent rise from a relatively low 1961 base. Projections now are for substantially increased rates of spending throughout the year. Outlays of nonferrous metal firms in the second half are expected to be back to course, the 1960 amount.

Both motor vehicle and other transportation equipment manufacturers are scheduling 1962 capital spending at rates one-fifth larger than 1961 outlays, with an uptrend implied for the entire year. Investment by nonautomotive transportation equipment producers, which have fluctuated within a narrow range since early 1958, are expected to move to a new high in the final half of 1962.

Producers whose major business is the output of capital equipment items—i.e., electrical and nonelectrical machinery and equipment—are reporting divergent trends. In nonelectrical machinery—where demand for construction, store and office and other special equipment is strong—1962 expenditures are projected to rise an eighth.

In contrast, electrical machinery producers, whose rate of investment growth is well above the general industry average, are reducing programs some 3 percent below 1961 outlays. This is one of the few manufacturing industries where capital outlays expanded substantially in 1959-60, and in the first quarter of last year surpassed the quarterly high in 1957 by 16 percent. Outlays held at this high plateau during the remainder of 1961.

Table 2.—Petroleum Industry Plant and Equipment Expenditures, By Function 1961 and Anticipated 1962

	1961 actual	1962 anticipated	Percent change 1961-62
	Billions of dollars		
Total.....	2.76	2.82	2
Production.....	1.67	1.66	-1
Transportation.....	.13	.12	-8
Refining and petrochemicals.....	.30	.63	6
Marketing.....	.47	.56	6
Other.....	.09	.11	22

Sources: U.S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

Investment in nondurables higher

Producers of nondurable goods—a strong group in 1961—have scheduled another increase in plant and equipment for this year. As can be seen in the chart, outlays by the group were well maintained during the late 1960-61 downturn in business, and investment during 1962 will continue the moderate uptrend which began in early 1958.

The increase in programs in 1962 is primarily attributable to chemical, rubber and petroleum companies. (See text table.) Oil companies expect to spend \$2.8 billion this year, 2 percent more than in 1961. The projected increase centers in facilities for refining, petrochemicals and marketing, while production and transportation expenditures are planned at lower rates this year than in 1961. Other major nondurable goods industries—food, textiles and paper—expect to maintain capital budgets close to 1961 levels.

Nonmanufacturing Investment Schedules

Consistent with growing distribution requirements and widening markets for all types of services, nonmanufacturing firms capital outlays have been accounting for a growing proportion of all nonagricultural business plant and equipment expenditures. Expected purchases in 1962 will be a record; outlays may exceed \$22 billion—up 7 percent from 1961 rates.

Within the commercial group all segments except finance are contemplating enlarged purchases of new plant or equipment this year. Percentagewise, the largest increases are programmed by service and trade firms. Recent trends in building permits for stores, garages, restaurants, etc., together with the rise in new orders for construction, store and office machinery generally confirm the probable realization of these plans. Finance companies are expecting to spend about the same amount as in 1961.

Utilities high but easing in first half

Plant and equipment expenditures by public utilities have been in an irregular but generally declining trend since late 1957. Anticipated outlays this year are scheduled to be 2 percent above

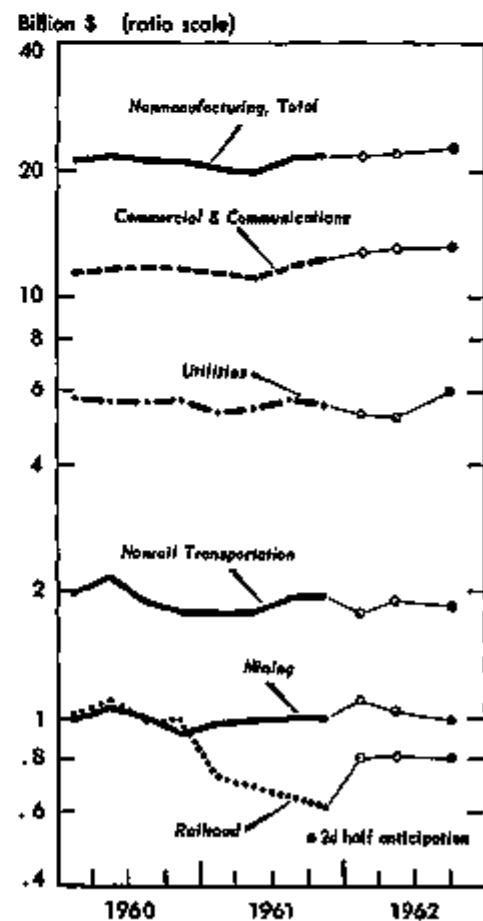
the 1961 rate, but the quarterly pattern of spending points to a continuing decline in the first two quarters of this year. A pickup is indicated for the second half.

The same general pattern is characteristic of both the electric and gas groups. However, the investment programs of the electric group as now planned are somewhat stronger than for gas companies.

Other industries mixed

Expenditures for capital items by nonrail transportation companies have been dominated in recent years by the jet plane acquisition programs of the airlines. Orders for this new generation of commercial aircraft were met very quickly, and capacity moved up faster than demand. Payments on these planes reached their high point in 1959. Planned outlays for 1962 reveal further sharp declines in spending

CAPITAL OUTLAYS OF NONMANUFACTURING FIRMS



U.S. Department of Commerce, Office of Business Economics 62-3-12

by airlines—this year's total may drop a fourth from 1961.

A counter-balancing development has appeared in the programmed acquisitions of trucking companies. The rise in expected spending this year about offsets the airlines' reduction in dollar purchases. Pipeline companies are lowering capital budgets moderately while other nonrail transportation companies are planning small increases. For the group as a whole 1962 expenditures may be about the same as in 1961, with no definite trend evident within the year.

As noted earlier, railroads' capital outlays in 1962 are scheduled for substantial increases, with traffic and earnings improvement. Both expenditures for road and equipment are expected to rise. Orders for freight cars and other equipment have increased sharply in recent weeks from comparatively low positions as railroads found themselves unable to cope with the demand for moving all types of commodities, but particularly grain and steel. Contributing to the pressure is the considerable reduction of number of cars owned by the roads in the last four years and the increase in the proportion of cars awaiting repair. Currently programs are predicted to be on a rising trend throughout the year.

Table 3.—Business Sales, Actual and Anticipated, 1960-62

	Percent change	
	1960-61 actual	1961-62 anticipated
Manufacturing industries.....	1	7
Durable goods industries.....	-1	9
Iron and steel.....	-7	15
Nonferrous metal.....	2	5
Electrical machinery.....	2	7
Machinery, except electrical.....	4	9
Transportation equipment.....	-6	10
Motor vehicles and parts.....	-12	15
Stone, clay, and glass.....	4	9
Nondurable goods industries.....	3	0
Food and beverage.....	2	5
Textile.....	1	7
Paper.....	7	0
Chemical.....	9	0
Petroleum.....	1	4
Rubber.....	-3	11
Trade.....		
Retail.....	0	5
Wholesale.....	2	5
Public utilities.....	5	8

Sources: U.S. Department of Commerce, Office of Business Economics and Securities and Exchange Commission.

Led by nonferrous metal extractive companies, mining firms are scheduling a moderate advance in plant and equipment expenditures this year. The increased spending would, however, still be a fifth below peaks attained five years ago when the search for new ore veins and oil pools was at its height.

Realization of 1961 Programs

Projections for the year 1961 were made in a decidedly less favorable environment than were the current year's budgets: the first quarter of 1961 proved to be the trough in national output. Total outlays were projected at slightly more than \$34½ billion, or 3 percent less than in 1960. Although business improved during the year, sales expectations were not fully met, and programs were not greatly altered, with final outlays at \$34½ billion.

But the close result in the total stemmed from varying shifts in the programs of the different groups. Durable goods manufacturers reported actual purchases of \$3½ billion, 6 percent below original budget anticipations. Sales expectations by durable goods producers were for a 2-percent rise; instead a 1 percent decline was registered for the year. Disappointing passenger car sales in the early part of 1961 were certainly a factor in the cutback of a fourth from planned acquisition of new facilities by motor

vehicle companies. Nonferrous metal producers also spent substantially less in 1961 than programmed. Among other durable goods industries only scientific and professional instrument producers spent more than budgeted early in the year.

Nondurable goods producers' investment was almost the same as projected early in 1961. While most industries' expenditures fell moderately below plans, there were substantial upward adjustments by textile, apparel, leather, and printing and publishing companies. The appreciable reduction in suggested average lives under the accelerated tax depreciation schedules allowed by the Treasury Department was announced too late in the year to have been a major factor in the textile industry's performance.

In the nonmanufacturing sector only public utilities companies overestimated the extent of their probable capital spending. The shortfall was somewhat greater for the gas than for the electric companies.

Expenditures by the railroads, and by communications and commercial firms in 1961 were larger than indicated by earlier programs. The roads advanced outlays by an eighth as earnings improved during the year. Both mining and nonrail transportation companies held outlays to original budgets.

Sales Rise Expected

Manufacturers, trade firms, and electric and gas utilities all look forward to record sales and revenues this year according to the expectations reported along with investment anticipations in this survey. In each case, projected sales allow for some further expansion from the sales rates prevailing at the turn of the year.

Manufacturers expect sales to rise 7 percent from 1961 to 1962, with durable goods producers projecting a somewhat larger gain than do nondurable goods companies. Expansion of this magnitude would mean that somewhat over

one-half of the overall rise had occurred by year-end 1961.

Retail and wholesale trade companies each anticipate 5 percent higher sales this year than last. These expectations appear quite conservative in view of the volume reached in the year-end advance.

Electric power and gas companies project revenues in 1962 about 8 percent above 1961. These expected increases compare with 5 percent advances in 1961, although they are somewhat less than the gains experienced in the 1959-60 recovery.

Recovery in factory sales

As can be seen in the table, every major manufacturing industry anticipates an increase in sales from 1961 to 1962. Those expected by durable goods companies are generally relatively greater than for soft goods producers—a customary pattern in a recovery period.

The largest relative gains—16 percent each—are projected by steel and auto companies, which also have programmed the largest increases in capital expenditures this year. When compared to current activity, however, the 1962 sales projections suggest only slightly more of a rise for motor vehicle companies this year, and a reduction in the rate of operations for steel com-

panies. The electrical and nonelectrical machinery industries look forward to sales gains of 7 percent and 9 percent, respectively, from 1961 to 1962.

In the nondurable goods industries, anticipated sales gains in 1962 are paced by rubber and chemicals companies which expect 1962 sales about a tenth above 1961. In the former industry, the advance primarily reflects the substantial improvement in auto demand, while in the latter industry the expected sales gain is more broadly based on the recovery in industrial output. Other nondurable goods industries expect sales rises of from 4 to 7 percent.

Last year's sales were slightly lower than projected, and the component manufacturing industries as well as

trade and utility firms all correctly reported the direction of the sales movements. It is also worthy of note that the sales deviations were quite similar in magnitude, and, to a large extent in composition, to those in capital outlays.

In manufacturing, sales rose 1 percent from 1960 to 1961 as compared to a projection of a 3 percent increase. The short fall occurred among motor vehicles, primary metals and electrical machinery companies. The two former industries experienced a larger sales loss than projected.

Public utilities and trade companies realized sales gains of 5 percent and 1 percent, respectively—or about 2 percent lower than expected.

Table 4.—Expenditures on New Plant and Equipment by U.S. Business¹, 1960-62

(Billions of dollars)

	Annual			Used adjusted												Seasonally adjusted at annual rates											
	1960	1961	1962 ²	1960				1961				1962				1960				1961				1962			
				Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.	Jan.-Mar.	Apr.-June	July-Sept.	Oct.-Dec.
All industries.....	35.68	34.37	37.16	7.89	8.28	8.90	9.53	7.67	8.61	8.68	9.64	8.14	9.44	38.15	36.36	35.90	35.60	33.85	33.68	34.70	35.40	36.10	36.60	36.10	36.10	36.60	36.60
Manufacturing industries.....	24.48	23.68	24.90	3.60	3.76	4.02	4.01	3.00	3.40	3.34	3.88	3.18	3.76	14.10	14.70	14.65	14.40	13.75	13.50	13.05	14.00	14.40	14.45	14.45	14.45	14.45	14.45
Durable goods industries.....	7.18	8.27	7.29	1.65	1.83	1.80	1.05	1.41	1.58	1.58	1.70	1.54	1.82	7.15	7.40	7.35	6.85	6.50	6.20	5.18	6.40	7.00	7.20	7.20	7.20	7.20	7.20
Primary iron and steel.....	1.80	1.78	1.45	.39	.42	.43	.28	.28	.28	.28	.30	.28	.35	1.00	1.00	1.75	1.45	1.35	1.05	1.10	1.10	1.25	1.30	1.30	1.30	1.30	
Primary nonferrous metal.....	.31	.20	.31	.07	.06	.07	.09	.07	.07	.07	.07	.07	.07	.30	.30	.30	.30	.25	.25	.25	.25	.30	.30	.30	.30	.30	.30
Electrical machinery & equipment.....	.68	.60	.67	.12	.14	.17	.23	.15	.17	.17	.20	.14	.16	.00	.85	.70	.75	.70	.70	.70	.70	.85	.70	.70	.70	.70	.70
Machinery, except electrical.....	1.10	1.10	1.24	.25	.25	.20	.38	.25	.28	.25	.32	.20	.32	1.15	1.15	1.05	1.05	1.15	1.10	1.05	1.10	1.25	1.25	1.25	1.25	1.25	
Motor vehicles and parts.....	.80	.73	.90	.17	.23	.25	.28	.15	.20	.19	.21	.15	.20	.80	.80	.95	.80	.70	.80	.70	.80	.90	.90	.90	.90	.90	.90
Transportation equipment, excluding motor vehicles.....	.42	.38	.40	.10	.10	.10	.11	.09	.10	.09	.11	.00	.10	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40
Stone, clay and glass.....	.62	.61	.60	.14	.17	.15	.11	.12	.12	.12	.10	.14	.15	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10	.10
Other durable goods.....	1.00	1.45	1.65	.30	.43	.27	.40	.30	.40	.30	.40	.38	.47	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Nondurable goods industries.....	7.30	7.48	7.42	1.54	1.66	1.81	2.06	1.69	1.88	1.84	2.09	1.64	1.82	6.95	7.38	7.30	7.85	7.28	7.38	7.35	7.48	7.45	7.45	7.45	7.45	7.45	7.45
Food and beverage.....	.62	.68	1.00	.21	.25	.23	.23	.21	.25	.24	.27	.23	.26	.90	.90	.85	.90	.93	.90	1.00	1.05	1.00	1.00	1.00	1.00	1.00	1.00
Textile.....	.33	.40	.40	.12	.13	.14	.14	.12	.12	.12	.14	.12	.16	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40	.40
Paper.....	.78	.68	.65	.10	.15	.20	.21	.16	.17	.15	.19	.15	.17	.70	.70	.75	.75	.75	.70	.70	.70	.70	.70	.70	.70	.70	.70
Chemical.....	1.00	1.02	1.71	.23	.40	.40	.40	.32	.42	.40	.40	.30	.43	1.40	1.00	1.05	1.05	1.50	1.85	1.05	1.65	1.05	1.05	1.05	1.05	1.05	
Petroleum and coal.....	2.64	2.75	2.52	.53	.63	.63	.78	.66	.70	.70	.80	.64	.67	2.55	2.70	2.50	2.80	2.70	2.75	2.85	2.80	2.80	2.80	2.80	2.80	2.80	2.80
Rubber.....	.23	.22	.25	.06	.06	.06	.06	.05	.05	.05	.07	.05	.07	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00	.00
Other nondurable goods.....	.49	.60	.64	.15	.17	.16	.28	.14	.17	.16	.19	.17	.19	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Mining.....	.98	.98	1.01	.32	.27	.25	.24	.21	.25	.25	.26	.24	.27	1.00	1.05	1.00	.98	.95	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Railroad.....	1.03	.67	.69	.30	.29	.24	.25	.17	.18	.16	.16	.19	.22	1.00	1.10	1.00	1.00	.70	.70	.65	.60	.80	.80	.80	.80	.80	.80
Transportation, other than rail.....	1.94	1.88	1.64	.47	.55	.47	.40	.41	.48	.47	.58	.41	.58	2.00	2.18	2.30	1.98	1.75	1.98	1.90	1.95	2.75	1.90	1.90	1.90	1.90	1.90
Public utilities.....	4.68	5.52	5.68	1.15	1.42	1.50	1.58	1.09	1.30	1.58	1.84	1.07	1.81	5.75	5.70	5.68	4.70	6.35	5.80	5.68	6.55	5.25	5.25	5.25	5.25	5.25	5.25
Communication.....	4.13	3.22	3.00	.71	.80	.77	.85	.78	.81	.78	.88	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....	.....
Commercial and other.....	3.44	5.40	5.00	1.08	2.19	2.13	2.14	1.94	2.04	2.16	2.22	3.05	3.40	11.38	11.60	11.78	11.85	11.30	11.05	11.85	12.38	12.75	13.00	13.00	13.00	13.00	13.00

1. Data exclude expenditures of agricultural business and outlays charged to current account.

2. Estimates are based on anticipated capital expenditures reported by business in late January and February 1962. The estimates for the first and second quarters of 1962 have been adjusted when necessary for systematic trends in anticipatory data.

3. Includes fabricated metal, rubber, furniture, instrument, electronic, and miscellaneous industries.

4. Includes apparel, tobacco, leather, and printing and publishing.

5. Includes trade, service, finance, and construction. The anticipated expenditures and the seasonally adjusted data also include communication.

Note: Details may not add to totals due to rounding. Data for earlier years were published in the June 1960, March 1961, 1962, and 1961 Survey of Current Business.

Sources: U.S. Department of Commerce, Office of Business Economics, and Securities and Exchange Commission.